ATTACHMENT 3

RSG

RECOMMENDATIONS

	Existing Policy	Initial Policy Recommendations (Oct 2023)	Revised Policy Recommendations (Mar 2024)
Inclusionary Unit Requirement	10%	10%	10%
Project Size Threshold *	All new residential development **with 50 or more units**	All new residential development, with pro rata in lieu fee for fractional units	All new residential development with **10 or more units**
Ownership Housing Affordability Mix	50% moderate- and 50% low-income	50% moderate- and 50% low-income	50% moderate- and 50% low-income
Rental Housing Affordability Mix	50% moderate- and 50% low-income	30% moderate-, 30% low-, and 40% very low-income	50% moderate- and 50% low-income

BUILDING INDUSTRY ASSOCIATION
OF SAN DIEGO COUNTY

AFFILIATES
California Building Industry Association

National Association of Home Builders

March 22, 2024

Brian Warwick
Housing Manager
City of Chula Vista
276 Fourth Avenue
Chula Vista, CA 91910

Re: Revised Inclusionary Housing Ordinance Comments

Dear Brian,

On behalf of the Building Industry Association of San Diego County (BIA), I'd like to thank you for the opportunity to provide comments to the City of Chula Vista's (City) revised draft amendments to the Inclusionary Housing Ordinance (Ordinance). We appreciate the willingness by City staff to meet with the BIA and consider the initial comments we provided last month. We also appreciate staff dedicating the time to host another briefing to review the revised language and answer questions from our members.

After review, we are generally supportive of the revised amendments to the Ordinance but would like to provide the following two comments.

First, we ask the City heed caution in lowering the threshold for application of the Ordinance from 50 units to 10 units. As mentioned previously, we believe this will reduce opportunities for infill development projects, particularly in the western portions of the City. Inclusionary requirements for small developments, and/or fractional in-lieu fees, will increase the barrier to entry for families redeveloping their own properties to build family wealth and significantly discourage infill development/redevelopment in Chula Vista.

Second, in the future we believe the City may need to consider a cap on the application of the in-lieu fee. Since the fee will now be on a square foot basis, if the City is not seeing the development of family-sized homes, the in-lieu fee could be discouraging construction of those homes. As you know, it's important the City have varying housing options for its residents, and we want to ensure the City is not going to experience an overdevelopment of one particular housing type.

We thank you for your willingness to work with the BIA in the development of this Ordinance, and appreciate the amount of time staff has dedicated.

Sincerely,

Lori Holt Pfeiler

Lori Holt Pfeiler
President & CEO

HOME FED CORPORATION | Developing Classic New Communities

March 22, 2024

Brian Warwick
Housing Manager
City of Chula Vista
276 Fourth Avenue
Chula Vista, CA 91910

Re: Comments on the Revised Draft Inclusionary Housing Ordinance

Dear Brian,

HomeFed thanks the City for the opportunity to participate in the robust stakeholder engagement process undertaken between July 2023 and March 2024 related to the updating the Inclusionary Housing Ordinance. Staff's iterative review of draft methodology, the ordinance, and the in-lieu fee structure with building industry stakeholders, and the incorporation of revisions responding to stakeholder input is appreciated.

HomeFed invests significant time and resources in stakeholder participation with the City and crafting of comments. As such, we especially appreciate the thoughtful ordinance updates staff integrated into the March 5, 2024 version that directly responded to key concerns from the development community.

Please accept this letter as supporting and reinforcing all comments in the letter from the Building Industry Association submitted on March 22, 2024.

HomeFed supports City adoption of the March 5, 2024 version of the Inclusionary Housing Ordinance. We look forward to continuing this important stakeholder relationship with the City to support a financially feasible and sustainable development climate in Chula Vista.

We thank you for the opportunity to provide input and appreciate the time and effort staff has dedicated.

Sincerely,

Nicholle N. Wright, AICP
Community Development Project Manager

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(760) 918-8210 *fax*

Chris Stanley

From:	Brian Warwick
Sent:	Tuesday, April 16, 2024 10:05 AM
To:	Chris Stanley
Subject:	FW: Affordable Housing Changes

Brian Warwick
Housing Manager

Department of Housing & Homeless Services
276 Fourth Avenue, Bldg. A | Chula Vista, CA 91910
(619) 409-5982 | bwarwick@chulavistaca.gov

CITY OF CHULA VISTA HOUSING & HOMELESS SERVICES

From:
Sent: Monday, March 18, 2024 11:55 AM
To: Stacey Kurz <SKurz@chulavistaca.gov>; Brian Warwick <bwarwick@chulavistaca.gov>
Cc: Maria Kachadoorian <mkachadoorian@chulavistaca.gov>; Tiffany Allen <TAllen@chulavistaca.gov>
Subject: Affordable Housing Changes

Stacey, I want to recognize the hard work you and the staff put in on the updates to the ordinance.
Brian did a great job shepherding us through the process.
Most notably we stake holders feel our concerns were understood, which is not always the case in other jurisdictions.
I have reservations with lowering the exempt status to 10 as I think it will have a negative effect on infill projects, but time will tell.
Good job, and this in part, is why CV enjoys a responsible and responsive relationship with the development community.
We recognize that we are partners with the City in shaping the future of Chula Vista.
Kevin O'Neill

RSG
BETTER COMMUNITIES.
BOLDER FUTURES.

Date: May 10, 2024

To: Stacey Kurz, Director, Housing & Homeless Services
Brian Warwick, Housing Manager
Chris Stanley, Senior Planner
City of Chula Vista

From: Mark Sawicki, Director
Brandon Fender, Senior Associate
RSG, Inc.

Subject: **Inclusionary Housing Ordinance Unit Threshold for Exemption**

RSG prepared a Policy Study and In-Lieu Fee Analysis dated April 29, 2024, in support of a proposed draft ordinance that will codify and amend the City's existing Balanced Communities Policy, also known as the Inclusionary Housing Ordinance (or "IHO"). Staff has recommended that all projects of less than 10 units be exempt from the inclusionary housing requirement. The Planning Commission has recommended increasing that exemption to projects of less than 25 units. RSG had indicated at the time that we did not see significant differences in feasibility among projects below 25 units to warrant setting an exemption at that or any other particular threshold. This memo provides further discussion on our research, analysis, and recommendations with regard to a unit threshold exemption.

Housing Development Cost and Valuation Research

RSG examined several data sources that are commonly used to evaluate development costs and valuation in order to isolate and determine measurable impacts on feasibility for projects of varying number of units. Development costs for our analyses were generated using Marshall Valuation Service ("MVS"), a standard industry source which has been used by appraisers to estimate building replacement costs since 1932. In addition to the analyses of construction costs using MVS, RSG analyzed the published total development costs of 24 recent California Tax Credit Allocation Committee ("CTCAC") applications for new construction. Residential building valuation, rents, vacancy rates, and operating cost data were generated from Costar, which is the leading source of commercial real estate data in the US and includes data for over 28,000 units in Chula Vista alone.

Intuitively, we would expect developers to see economies of scale for some development costs such as legal and accounting fees, appraisals, marketing, and special studies, which may be less dependent on project size. We would also expect some efficiencies with hard costs for larger and taller structures, such as those for fire sprinklers, and mechanical and electrical systems. The MVS model uses base building costs per square foot for different types of structures, and has various multipliers used to account for some differences that arise with scalability. However, we found that most development costs are scaling in direct proportion with the square footage of the building. Materials, labor, financing fees, and architecture and engineering fees, which collectively make up a majority of the development costs, will generally increase proportional to the development cost or size of the structure. The few costs with multipliers that show some economies of scale did not significantly impact the otherwise linear growth in total development cost in the range from zero to fifty units.

RSG filtered 2024 CTCAC 9% tax credit applications to include only new construction of multifamily housing for large families, excluding senior, single room occupancy, rehabilitation, and adaptive reuse applications. Only one application meeting these criteria had 25 units or less and that project indicated costs of about $673 per square foot. For the 8 projects with 26 to 49 units, the weighted average cost per square foot was $665, slightly less than the cost per square foot for the 25-unit project. The weighted average cost per square foot for the 15 tax credit applications with 50 or more units was $522. This information suggests a cost savings as the number of units in a development increase, most significant for those over 50 units (about 22% less). However, this analysis is limited because it includes only a small sample of projects, includes projects across California in both rural and urban areas, and evaluates only 9% tax credit applications and there are variations in the costs of affordable multifamily and market rate multifamily developments.

We also looked at the components of building valuation: rental income, operating expenses, cap rates, and sales prices. Again, we did not see any significant differences in valuation metrics for smaller (<10 unit) projects compared to projects with 25 or more units. The average gross income, operating expenses, and net operating income were all comparable. From the transaction side, sales prices and cap rates on an average per unit basis did not vary significantly based on the size of the development. This implies that either the development costs per unit are similar, or if the costs are actually higher per unit, then investors in smaller projects are accepting less than market rate returns on costs.

While intuitively one might expect buildings with more units to experience economies of scale in costs, and a resultant edge in profitability, we have not found data sources aside from the limited tax credit application analysis that would directly support this finding.

Considerations in Adopting a Unit Threshold for Exemption

RSG typically recommends that when cities adopt inclusionary housing policies, that all new market-rate residential development participate on a proportionate basis, either by providing affordable units or paying a partial in-lieu fee. RSG also recommends that the in-lieu fee be set on a per square foot basis rather than a per unit basis. Under this framework, all residential developers are absorbing the same per square foot cost of compliance, regardless of the number of units or their sizes. Developments with larger unit sizes, however, will contribute more per unit than projects with smaller units and higher densities. This treats all development types the same and does not create an incentive to build fewer units for projects at or near the threshold in an effort to avoid the inclusionary unit or fee requirements.

With a 10% inclusionary requirement and no unit threshold exemption, projects with less than 10 units would not be expected to provide an affordable unit. Instead, they would pay a partial in-lieu fee, relative to the amount of residential square feet being built. By establishing an exemption for projects with less than 10 units, there will be a resultant jump in costs for the 10th unit, ranging from $10,000 to $270,000 to include one moderate-income unit, depending on housing prototype, or payment of an in-lieu fee averaging $134,000 to $180,000 (at recommended per square foot levels). By establishing an exemption for projects with less than 25 units, there will be a jump in costs for the 25th unit that may range from $435,000 to $917,000 for including one moderate-income and one low-income unit, depending on housing prototype, or payment of an in-lieu fee averaging $335,000 to $450,000 (at recommended per square foot levels).

Based on a review of potential residential development projects currently in the pipeline in Chula Vista, at least 5% are below 10 units (representing 0.1% of pipeline units) and 11% are below 25 units (representing 0.7% of pipeline units). We project that a unit threshold exemption below 10 units may result in foregoing at least 5 inclusionary affordable units, while a threshold below 25 units may result in foregoing at least 25 inclusionary units. If developers were electing to pay the in-lieu fee on these projects (at recommended levels), adopting either threshold may reduce the potential collection of in-lieu fees by about $1.2 million at 10 units, or about $5.7 million at 25 units.

Wherever the threshold is set, there will be an incentive to build below the threshold. However, the higher the threshold, the greater the incentive becomes to avoid the jump in costs for compliance. A higher threshold will also reduce the number of affordable units and/or housing funds the City may receive.